(12) LEVEL II

NPRDC TR 82-17

NOVEMBER 1981

# CERTAIN PLACES PAY: CURRENT INCONSISTENCIES AND SUGGESTED ALTERNATIVES





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NPRDC TR 82-17

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UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

# REPORT DOCUMENTATION PAGE

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| | | |
|---|---|---|
| 1. REPORT NUMBER<br>NPRDC TR 82-17 | 2. GOVT ACCESSION NO.<br>AD-A109 624 | 3. RECIPIENT'S CATALOG NUMBER |
| 4. TITLE (and Subtitle)<br>CERTAIN PLACES PAY: CURRENT INCONSISTENCIES AND SUGGESTED ALTERNATIVES | | 5. TYPE OF REPORT & PERIOD COVERED<br>Sep 1979-Jun 1980<br>6. PERFORMING ORG. REPORT NUMBER |
| 7. AUTHOR(s)<br>Josh Dorsey, Murray Rowe<br>Richard King, Mark Chipman | | 8. CONTRACT OR GRANT NUMBER(s)<br>N00123-80-D-0591 |
| 9. PERFORMING ORGANIZATION NAME AND ADDRESS<br>REHAB Group, Inc., Falls Church, Virginia 22041<br>Navy Personnel Research and Development Center<br>San Diego, California 92152 | | 10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS<br>63707N<br>Z1182-PN.03 |
| 11. CONTROLLING OFFICE NAME AND ADDRESS<br>Navy Personnel Research and Development Center<br>San Diego, California 92152 | | 12. REPORT DATE<br>November 1981<br>13. NUMBER OF PAGES<br>25 |
| 14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office) | | 15. SECURITY CLASS. (of this report)<br>UNCLASSIFIED<br>15a. DECLASSIFICATION/DOWNGRADING SCHEDULE |

16. DISTRIBUTION STATEMENT (of this Report)

Approved for public release; distribution unlimited.

17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)

18. SUPPLEMENTARY NOTES

19. KEY WORDS (Continue on reverse side if necessary and identify by block number)

Certain Places Pay
Foreign Duty Pay
Special Pay

20. ABSTRACT (Continue on reverse side if necessary and identify by block number)

Certain Places Pay (CPP) is provided to enlisted personnel serving at specified locations outside the contiguous United States as a morale factor and in recognition of the greater-than-normal rigors of service at such locations. Because the CPP rates have not changed since 1949, the pay has declined from about 10 percent of basic pay to less than 2 percent currently. To assist OP-01 in making or supporting informed decisions designed to improve the CPP system, this effort evaluated the cost, effectiveness, and administrative burden of the existing CPP system relative to a set of six alternative pay schemes.

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## FOREWORD

This research and development effort was conducted in response to Navy Decision Coordinating Paper Z1182-PN (Military Personnel Cost Projection), under subproject PN.03 (Compensation and Incentives for Military Force Management) and the sponsorship of the Deputy Chief of Naval Operations (OP-01). The objective of the subproject is to develop techniques, analyses, and procedures that will permit Navy personnel managers to make knowledgeable assessments of the cost and retention consequences of existing and proposed compensation policies. This report describes a detailed evaluation of the cost, effectiveness, and administrative burden of the present Certain Places Pay (CPP) system in comparison to a set of alternative pay schemes. An earlier report (NPRDC TR 81-1) examined the evolution of the Congressional intent, eligibility criteria, cost, and value of CPP. The two reports will provide an assessment of CPP in sufficient detail to permit OP-01 to draft and/or support legislation to improve the CPP system.

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## SUMMARY

### Problem

Many special pays have lost their significance with respect to the total military compensation package. Because some pay rates have not been changed for 20 or more years, they are perceived as "token" payments by the recipients. As a result, it is doubtful whether these pays are fulfilling either their original or current intent. One example is Certain Places Pay (CPP), which is paid to enlisted personnel serving at specified locations outside the contiguous United States as a morale factor and in recognition of the hardship of serving at such locations. Although CPP originally amounted to about 10 percent of an enlisted person's basic pay, it is now less than 2 percent.

### Objective

The purpose of this effort was to analyze the current and prospective CPP systems in sufficient detail to permit the Deputy Chief of Naval Operations (MPT) (OP-01) and the Office of the Secretary of Defense (OSD) to support legislative proposals to improve CPP.

### Approach

The administration, cost, value, and effectiveness of the present CPP system were assessed. The current system was then compared with other federal government and private industry overseas compensation systems. Finally, alternative CPP schemes were developed, analyzed, and contrasted.

### Findings

1. CPP is paid to all enlisted personnel assigned to duty in foreign countries where an "accompanied by dependents" tour is not authorized. In addition, any other foreign duty installation may qualify on the basis of extreme climate or lack of support facilities.

2. A comparison of overseas compensation elements (overseas tour length policies, hostile fire pay, family separation allowance, overseas station allowances and CPP) reveals a similarity of purpose and high degree of redundancy.

3. Since military personnel are subject to assignment overseas without individual option, special compensation practices for such duty are predominantly based on the needs of the individual service member in recognition of such service. In contrast, private industry has established and maintained its compensation practices for overseas employees based on the inducements necessary to recruit and retain personnel for extended employment overseas. A principal element of the compensation package offered employees for overseas duty by most companies is an overseas differential pay. There is, however, little uniformity between companies as to the method used to determine the rate of pay. Some companies detail the factors they consider important and weight them by degree of hardship. Others simply apply their subjective judgment, while still others rely on the recommendations of consultants or use State Department post differential tables.

4. Aside from eliminating CPP altogether, a plan to reset the CPP rates to 10 percent of enlisted and officer basic pay was the most expensive (roughly six times the current CPP appropriation), while a plan that bases new rates on State Department post differential was the least expensive.

## Conclusions

CPP has become a "token" recognition of overseas hardship duty. Qualification standards for the pay either overlap or are inconsistent with other forms of overseas compensation.

Several alternatives to the current system exist. They provide greater recognition to personnel serving overseas in undesirable environments and are more consistent with other forms of overseas compensation than CPP. All of the alternatives would, however, cost 50 percent or more than the current CPP outlays.

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## INTRODUCTION

### Problem

Since 1963, Congress has authorized payment of Certain Places Pay (CPP) (formerly known as "foreign duty" pay) to enlisted personnel serving in certain overseas locations. The CPP rates range from $8.00 to $22.50 per month, depending on the pay grade of the member. The pay is intended to recognize the differences in the "rigors of the service" that prevail at many overseas locations. Defense Department implementation authorizes the pay in locations where accompanied tours are not authorized, that lack adequate support facilities (e.g., commissary, exchange), and that lie in latitude bands outside the "temperate zones."

An historical examination of the evolution of CPP (King, Dorsey, & Rowe, 1980), which preceded this effort, documents how the Congressional and military intent, the eligibility criteria, and the costs of this special pay have changed over time. The historical perspective revealed an evolution from a meaningful pay provided to both officers and enlisted to its present "token" status. The dollar rates for CPP are the same as those authorized in 1949, when it represented about 10 percent of an enlisted member's base pay. Payment currently averages less than two percent of base pay. However, the total appropriation requested for payment for FY80 to an estimated 154,000 service members, which amounts to approximately $25.59 million, is not an insignificant amount if the pay does not accomplish its intended purpose.

### Objective

The objective of this effort was to analyze the current and alternative CPP systems in sufficient detail to permit the Deputy Chief of Naval Operations (Manpower, Personnel, and Training) (OP-01) and the Office of the Secretary of Defense (OSD) to draft and/or support legislation to improve CPP.

### Approach

The administration, cost, value, and effectiveness of the present CPP system were assessed. The current system was then compared with other federal government and private industry overseas compensation systems. Finally, information obtained was used to develop, analyze, and compare alternative pay schemes.

## THE CERTAIN PLACES PAY (CPP) SYSTEM

### Administration of Certain Places Pay

When the 88th Congress approved the Uniform Pay Act of 1963 (P.L. 88-132), it amended Title 37, U.S.C. 305 and changed the concept of Certain Places or "foreign duty" pay. Existing provisions had granted such pay to all enlisted members on duty outside the U.S. or in Alaska or Hawaii. The amendment, in effect, provided that enlisted members could be paid CPP for service outside the contiguous 48 states and the District of Columbia only where designated by the Secretary of Defense. The intent of Congress was to provide the Secretary of Defense with the necessary flexibility to recognize the "rigors of service" that exist at different overseas locations, including such factors as undesirable climate, the lack of normal community facilities, and the accessibility of locations. Although Congress changed the concept of eligibility for CPP, it left the amount of payment at the same scale that had been in effect since 1949.

Presidential authority for implementation of the law (Executive Order 11157, Certain Places Pay, June 22, 1964, as amended), authorized the Secretaries of Defense or Treasury (for Coast Guard not operating as part of the Navy)[1] to designate the "certain places" that qualify for special pay. The Defense Department governing directives for implementation of CPP are DoD Instruction 1340.10 dated 5 June 1972, which established guidelines for the military departments in designating the qualifying "duty places," and the DoD Military Pay and Entitlements Manual (Department of Defense, 1967), which lists conditions of entitlement, rates of payment, and the specific foreign duty pay areas (FDPA).

The Defense Department policy guidance to the services for implementing CPP provides that all enlisted personnel assigned to duty in foreign countries, where an "accompanied by dependents" tour is not authorized, will qualify. In addition, any other foreign duty place of assignment may qualify, provided one of the following conditions exist:

1. Climate. The place of assignment is specifically recommended by the appropriate major command and is located (a) either at or above 58° N latitude (b) either at or below 58° S latitude, or (c) between 23° N and S latitudes (Tropics of Cancer and Capricorn).

2. Availability of Support Facilities. The commander determines that his facility lacks adequate government-sponsored support facilities and services (e.g., commissary, exchange), and is not within 45 minutes normal travel time or 40 kilometers (approximately 25 miles) of a metropolitan community where such facilities may be adequately supplemented by the civilian economy.

3. Exceptions. Places of assignment not meeting the criteria above may also be recommended for the special pay provided adequate justification is furnished.

The Assistant Secretary of Defense (Manpower and Reserve Affairs) has been delegated the authority to approve the designation of special pay areas. Each military department is required to conduct a semiannual review of its FDPAs, recommending any additions or deletions by 15 April and 15 October of each year. Requests for change are the responsibility of the military department having the largest number of personnel assigned to the particular location.

The present list of foreign duty pay areas contains 344 locations. Twenty-six of the locations do not authorize dependents, 74 are completely or partially inside of the qualifying latitude bands, and the remaining 244 presumably lack facilities or are exceptions.

## Certain Places Pay in the Context of Overseas Compensation

Because of the numerous overseas pays and entitlements, it is difficult to isolate the effectiveness of CPP in providing special recognition of assignment to less desirable overseas areas. Other methods of recognition include overseas tour length policies, hostile fire pay, family separation allowances, and overseas station allowances.

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[1]The Treasury Department has not published any special directives for implementing CPP in the Coast Guard. Instead, it follows the criteria established by the Defense Department.

Overseas tour length policies, as established by DoD (DoD Directive 1315.7, Military Personnel Assignments), are based on the general desirability of each location and a comparison with acceptable "patterns of American living standards." Such factors as climate, available standards of living (e.g., as to housing, food), the political situation, and the availability of facilities and transportation are all considered in determining the tour lengths of military personnel assigned overseas. Authorization for dependents in overseas locations is based on the above factors, as well as the probability of being attacked and the possible adverse effects their presence might have on a unit's mission, operational readiness, or combat capability. Although every reasonable effort is made to minimize periods of forced family separations, dependents are not normally allowed in any location where one or more of the above factors is unfavorable. Thus, overseas tour length and authorization for dependents in a particular area reflects the general desirability of the area. In addition, such policies, by attempting to assure an equitable distribution of overseas assignments to both desirable and undesirable locations among all qualified personnel, enhance career attractiveness and are thought to be a positive morale factor.

The Secretary of Defense has the authority under law (37 USC 310) to designate "hostile fire" areas. Qualifying duty in a hostile fire area entitles both officer and enlisted members to hostile fire pay (HFP), at a rate of $65 per month. This pay may be received in addition to any other pay or allowances to which the member is entitled. It is not paid in time of war declared by Congress nor can a member receive more than one HFP for any one month. Its intent is to provide additional payment as recognition to members, who, in time of nominal peace, serve in a designated combat area.

A family separation allowance (FSA) is authorized by law (37 U.S.C. 427) to reimburse both officer and enlisted members involuntarily separated from dependents for the extra expenses involved. There are two types of family separation allowances, both of which may be paid to a qualified member during the same period. One allowance (FSA-1) pays a member on duty outside the U.S. or Alaska an amount equal to the basic allowance for quarters (BAQ) of a member of the same pay grade without dependents. This is intended to cover the added housing expense caused by maintenance of two households when the member separated from his family is not provided quarters overseas.

The other allowance (FSA-2), which is paid only to members of pay grade E-4 (over 4 YOS) or above, with dependents, provides a flat rate of $30 per month. FSA-2 is paid when members are serving either inside or outside the U.S. to compensate for added expenses incurred by family separation due to permanenent change of station (PCS), duty aboard a ship, or travel duty (TDY). FAS-2 is not authorized in time of war or national emergency.

It is important to note that, during hearings on the proposed Uniformed Pay Act of 1963, DoD proposed that a service member be entitled to receive either the family separation allowance or sea and foreign duty pay, but not both concurrently. This was based on DoD's position that concurrent payment would result in a questionable pyramiding of compensation. This recommendation was never adopted.

The final overseas hardship entitlement is the overseas station allowance, which is paid to defray excess costs experienced by members on permanent duty at places outside the United States. Station allowances include the housing allowance (HA), cost-of-living allowance (COLA), interim housing allowance, and temporary lodging allowance (TLA). Overseas station per diem allowances for quarters and subsistence are prescribed, when warranted, for specific areas where the cost-of-living is in excess of that currently existing in the United States. (The Joint Travel Regulations, Part G. Volume 1 prescribe the station allowances for specific areas.) Separate allowances are specified for officer and enlisted personnel, and members with dependents in the foreign area are authorized allowances different from those applicable to members not accompanied by dependents. Average excess costs are derived by comparing the average cost-of-living of members residing in the United States and similar costs borne by those assigned to installations overseas. Since the payment of a COLA is dependent, in part, on the availability of commissaries and exchanges in the area under consideration, it thus represents an indication of station facilities available.

A comparison of the criteria for overseas tour lengths, hostile fire pay, family separation allowance, and overseas station allowances with those of CPP reveals a high degree of redundancy. As noted earlier, tour lengths are established based on the general desirability of an area. It should follow then that those places that qualify for CPP would normally either be designated for unaccompanied tours or have short accompanied tours but would not have accompanied tours greater than the normal CONUS tour length of 3 years. Similarly, a high COLA authorization would suggest a lack of commissary and exchange-type facilities near the installation. In many cases, lack of a COLA would indicate the availability of such facilities. An analysis of FDPAs reveals that this is not necessarily the case.

Table 1 catalogues some apparent inconsistencies in overseas compensation. Note that 244 (71%) of the foreign duty pay areas are so designated because of lack of facilities, or because they are exceptions. Yet, 110 (45%) of these 244 foreign duty pay areas are not authorized a COLA, which would suggest the lack of adequate facilities. Table 1 also shows that 187 (54%) of all the foreign duty pay areas enjoy a tour with dependents of greater than 3 years. Of these, 173 (93%) qualify for CPP because of lack of facilities or because they are exceptions, including 141 (82%) that are located in Germany. Moreover, 14 (7%) of the 187 locations having tour lengths greater than 3 years are located in intemperate zones.

Table 1

Inconsistencies of Criteria for Designation
of Foreign Duty Pay Areas/Tour Lengths (as of FY80)

| Item | Number |
|---|---|
| Foreign Duty Pay Areas | 344 |
| Dependents not authorized | 26 |
| Intemperate climate | 74[a] |
| Lack of facilities or exceptions | 244[b] |
| Foreign Duty Pay Areas w/tour lengths greater than 36 months | 187 |
| Dependents not authorized | 0 |
| Intemperate climate | 14 |
| Lack of facilities or exceptions | 173[c] |

[a]There are 81 FDPA located in intemperate climates, seven of which qualify for designation on basis of dependents not being authorized.

[b]COLA not authorized of 110 of these pay areas.

[c]141 of these pay areas are in Germany.

In addition to some inconsistent applications of policy and criteria, there appear to be both pyramiding of, and possible conflict in, the benefits available to those serving overseas. None of the methods of recognition are mutually exclusive. The payment of CPP, HFP, FSA, HA, and COLA to the same qualified member is possible. Two of these, HFP and FSA-2 are only payable during periods of nominal peace. Thus, under present law, it is conceivable that an infantry soldier in an active combat environment would receive less monetary recognition than a soldier of the same rank receiving CPP, HA, and COLA while enjoying an extended overseas tour with wife and family in comfort far removed from the hostilities.

## COMPARISON OF MILITARY AND CIVILIAN OVERSEAS COMPENSATION AND BENEFIT PRACTICES

The total compensation packages provided by the military, the federal government, and large U.S.-based international companies to their employees assigned overseas are both complex and divergent. Moreover, in industry, the elements of the packages vary from company to company, although the overall pattern of remuneration is relatively uniform.

Information concerning industry's overseas compensation practices was extracted from National Conference Board Reports Number 665 (1975), entitled "Extra Pay for Service Abroad," and Number 574 (1972), entitled "Compensating Key Personnel Overseas." The State Department publication entitled "Standardized Government Regulations for Civilians in Foreign Areas" was used as the source for Civil Service and State Department compensation and benefit practices.

A simple comparison reflects the basic difference in purpose of the overseas compensation practices of the military on one hand, and the federal government and private industry on the other. Since military personnel are subject to assignment overseas without individual option, special compensation practices are predominately based on the need to recognize the individual for such service. In contrast, private industry has established and maintained its compensation practices for overseas employees based on the inducements necessary to recruit and retain personnel for extended employment overseas. Within the federal government, the State Department traditionally has provided a compensation and benefit structure for foreign service employees primarily on an incentive basis to ensure the retention of qualified career employees.

A principal element of the compensation package offered employees for overseas duty by most companies is an overseas differential pay, which is referred to as a "foreign service premium," a "hardship allowance," or by some other name traditional to each company. In essence, however, it is a meaningful payment simply for service in a specific foreign location. It is not a cost-of-living or housing allowance and is normally paid in addition to such allowances. Of the 213 American-based corporations queried in a 1975 survey conducted by the Conference Board, 184 (86%) paid an overseas differential. As Figure 1 indicates, 97 percent of these firms (179) compute the differential as a percentage of salary, 35 percent specify a maximum amount, and 20 percent include the differential payments in calculating benefits. Sixty-five percent vary the premium from one foreign location to another, while 35 percent (not shown) pay a uniform percentage in all of their foreign locations. In the latter case, 15 percent of salary was the rate most commonly applied.

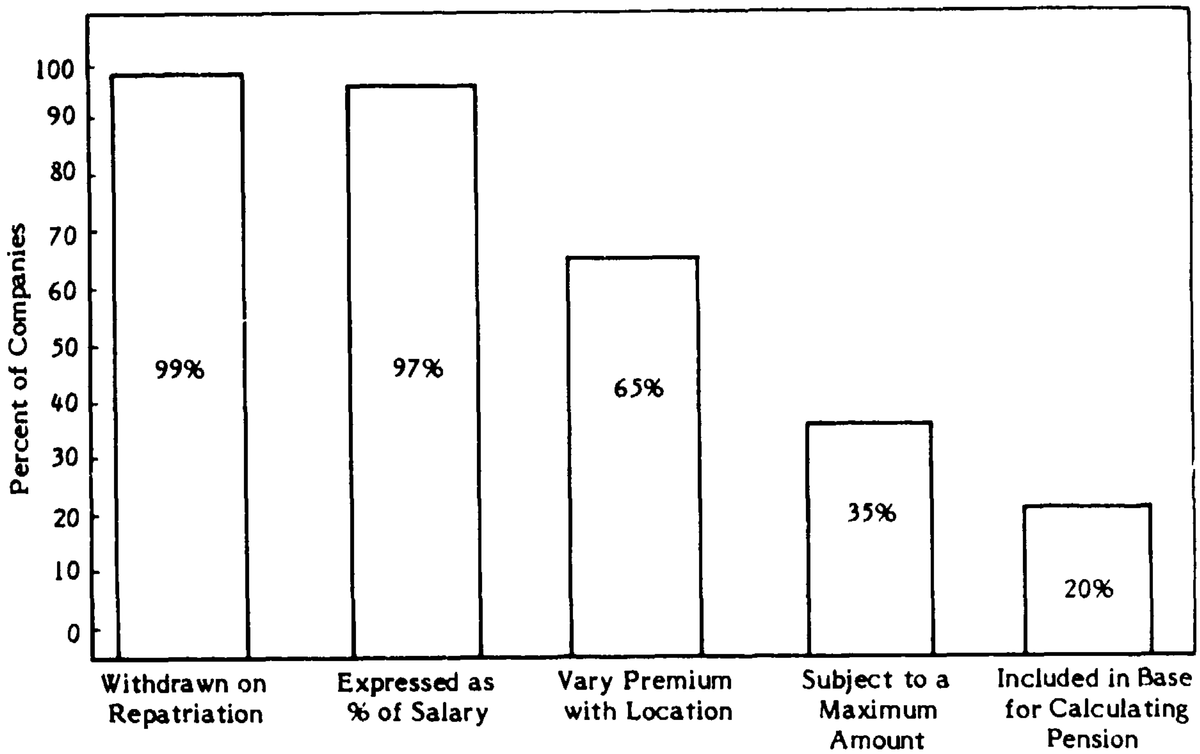


Figure 1. Overseas Differential Pay Practices of 184 American-Based International Corporations

There is little uniformity between companies in the method used to determine the rate of overseas differential pay. Some companies detail the factors they consider important and weight them by degree of hardship. Others simply apply their subjective judgment, while still others rely on the recommendations of consultants or use the State Department's post differential tables. Of the companies that weight the degree of hardship at each location, the most important factors considered were alien culture, physical safety, living conditions, and health risks. Climate and availability of recreational facilities received little or no weight.

It is generally the very large, capital-intensive companies with widely dispersed operations that choose the variable premium. They must offer an incentive for service that varies according to a variety of conditions. The labor-intensive companies have less need for U.S. employees and, hence, less need for incentives. Finally, those companies that are less widely dispersed geographically have less need for a variable incentive. Table 2 reflects the major reasons given for paying an overseas differential as determined by the survey. Most of the 29 firms that did not pay an overseas differential felt that a premium was not needed to encourage service abroad or no real hardship existed where the companies operate.

Table 2

Major Reasons for Paying Overseas Differential Pay

| Reasons for Paying Overseas Differential Pay | Number of Companies | Percent of Differential-paying Companies[a] |
|---|---|---|
| Encourages personnel to accept a foreign assignment. | 120 | 67 |
| Compensates for the intangible factors in foreign service without distorting the job-evaluation system. | 115 | 64 |
| Brings compensation to competitive levels. | 109 | 61 |
| Provides flexibility to make transfers of personnel between locations of varying hardship. | 64 | 36 |
| Provides a mechanism for achieving equity in compensating personnel in different locations. | 39 | 22 |

Source. National Conference Board Reports Number 665, "Extra Pay for Service Abroad" (1975) and Number 574, "Compensating Key Personnel Overseas" (1972).

[a]Those in which the differential is computed as a percentage of salary.

A principal element of the compensation package provided federal government employees overseas is the post-differential allowance. The Department of State, with numerous personnel assigned around the world, has developed a highly sophisticated procedure for determining the allowance to be paid personnel while they are assigned to specific overseas posts. Considerations used to determine the degree of "hardship" existing at each post include 11 categories: housing, recreational opportunities, isolation and transport, consumer services, the quality of food available, climatic impact on physical well-being, physical hazards, incidence of disease, sanitation, health control, and medical facilities. These categories are broken down into some 77 factors that are evaluated separately to assure objectivity. For each post, a differential is established based on the weighting arrived at by such an evaluation, as reviewed and reconciled by higher officials and finally approved by the Secretary of State. There are only five categories of such post-differential rates; specifically, 0, 10, 15, 20, and 25 percent (25 percent is the statutory limit). These represent percentages of base pay that will be paid to individuals assigned to the specific posts as a post-differential allowance, in addition to other entitlements.

In summary, both the government and industry provide a compensation package for their overseas employees that includes a payment in recognition of the hardship imposed by overseas service. Such payments differ from the token payment provided for certain overseas military hardship duty in that they are sufficient to meet labor market needs to recruit and retain competent personnel for extended periods overseas. The major differences between the civilian and military systems are:

1. Civilian recognition is, generally, in the form of a percentage of base pay that reflects the degree of hardship at specific locations.

2. Payment is not limited to any level or classification of employee.

3. Level of payment is normally at a meaningful rate.

4. In industry, a maximum payment is sometimes set, and consideration is given to income tax equalization allowances.

## ALTERNATIVES TO THE PRESENT CPP SYSTEM

Knowledge of current CPP deficiencies and inconsistencies, as well as an understanding of other federal government and private industry overseas compensation methods, contributed to the development of a set of alternatives to the current CPP system.

The most obvious alternatives are those that keep the basic administrative structure of the CPP system intact but increase the rates of payment sufficiently to achieve their intended purpose of adequate pay for undesirable duty overseas. A previous report (Dorsey, King, & Rowe, 1980) addressed, in part, the value of the present CPP to the individual military member. In terms of purchasing power and as a percentage of base pay, CPP has decreased continuously since 1949. Logically, the first two alternative pay schemes are based on the restoration (to 1949 levels) of the purchasing power and size relative to base pay of CPP, respectively. In addition, both include a method of adjusting payment to prevent future erosion of the pay.

### Alternative 1

This alternative retains the basic provisions of present CPP system, but sets the rates of payment at a level adjusted for the consumer price index (CPI) from a 1949 base. The new rates (for FY80), as shown in Table 3, would provide a sliding scale of CPP payment varying from $26.00 to $75.00, depending on the recipient's pay grade. Future payments would be adjusted for CPI and thus retain the recipient's purchasing power.

This alternative has the advantage of restoring CPP rates to a value comparable to that initially established by Congress to recognize rigorous overseas duty. Moreover, little administrative change is required. However, like the present system, it lacks means of differentiating between degrees of hardship and fails to recognize officers.

Applying the rates to the number of DoD personnel receiving CPP in FY80, by pay grade, results in an estimated annual cost of Alternative 1 of approximately $85.9 million (FY80 dollars). (The actual FY80 expenditure on CPP was $25.6 million.)

### Alternative 2

Like the previous alternative, this proposal retains the basic provisions of the present CPP system, but sets the rates of payment at 10 percent of base pay. Ten percent represents the guide used in establishing the 1949 rate of payment and is consistent with civilian practices. This action would establish an FY80 rate of payment (see Table 4) varying from $45.00 to $109.00, depending on pay grade. Future adjustments to basic pay would automatically provide a similar adjustment to CPP. Alternative 2 would have cost an estimated $134.5 million in FY80.

Table 3

Estimated FY80 Cost of Alternative 1

| Pay Grade | Current CPP Rates (as set in 1949) ($) | Alt. 1 CPP Rates in FY80[a] ($) | Number in DoD Receiving CPP, FY80 | Estimated[b] Annual Cost, FY80 |
|---|---|---|---|---|
| E-9 | 22.50 | 75.00[c] | 956 | $ 860,400 |
| E-8 | 22.50 | 75.00[c] | 2,801 | 2,520,900 |
| E-7 | 22.50 | 75.00 | 10,675 | 9,607,500 |
| E-6 | 20.00 | 67.00 | 18,548 | 14,912,600 |
| E-5 | 16.00 | 54.00 | 31,996 | 20,733,400 |
| E-4 | 13.00 | 43.00 | 39,778 | 20,525,400 |
| E-3 | 9.00 | 30.00 | 27,536 | 9,913,000 |
| E-1/E-2 | 8.00 | 26.00[c] | 22,018 | 6,869,600 |
| Total | | | | $85,942,800 |

[a]FY80 dollars required to equal FY49 purchasing power given inflation (measured by CPI).

[b]Annual cost equals monthly CPP rate times number of CPP recipients times 12 (rounded to the nearest 100).

[c]Under the current rate structure, rates for E-7 to E-9 and for E-1 and E-2 are the same. That structure is maintained in this alternative.

Table 4

CPP Rates (FY80) for Alternative 2
(Rates Set at 10% of Base Pay)

| Pay Grade | Years of Service | Basic Pay FY80 Monthly | FY80 CPP Rates |
|---|---|---|---|
| E-9 | 22 | $1,629.60 | $109.00 |
| E-8 | 20 | 1,309.50 | 109.00 |
| E-7 | 18 | 1,091.40 | 109.00 |
| E-6 | 12 | 960.00 | 96.00 |
| E-5 | 6 | 814.80 | 81.00 |
| E-4 | 4 | 676.80 | 68.00 |
| E-3 | 3 | 570.30 | 57.00 |
| E-2 | 2 | 500.10 | 45.00[a] |
| E-1 | <1 | 448.80 | 45.00 |

[a]Under the current CPP rate structure, rates for E-7 to E-9 and for E-1 and E-2 are the same. Hence, for comparability, the rates for E-7 and E-2 are 10 percent of base pay for E-7 and E-1 respectively, just as they were set originally.

Both Alternatives 1 and 2 would provide a meaningful level of recognition for enlisted members, but fail to recognize the "rigors of service" that are undertaken by officers or the varying degree of hardship prevailing at different foreign duty pay areas. There is a precedent for alternatives that include officers. They were paid foreign duty pay until 1949. Both the State Department and private industry pay a foreign service premium to all qualified employees, regardless of grade or classification, and do so at rates varying with specific overseas locations. It could be argued, however, that alternative pay schemes that include officer remuneration at an amount greater than that provided enlisted for the same service tend to defeat the argument of comparable hardship. To make such inclusions more palatable, a limitation on amounts payable to officers seem logical. To provide recognition for officer personnel and the varying degree of hardship found at different foreign duty pay areas, alternatives 3 and 4 were generated.

Alternative 3

This alternative uses Alternative 2 as a baseline and, in addition, establishes an officer rate equivalent to the maximum payment to qualified enlisted personnel.[2] Also, it limits the receipt of CPP and FSA-2 to one or the other, at the discretion of the service member.

Alternative 3 contains all the attributes of Alternative 2, while reducing the redundancy in overseas compensation. However, its cost differs from Alternative 2 because of the additional cost attributable to officers less the savings resulting from paying CPP or FSA-II, but not both.

Of active duty military personnel on a world-wide basis, an estimated 20,000 officers in overseas areas would become eligible for CPP under this alternative. This estimate is derived by counts of military personnel by area and the end of FY79.

Table 5 details the approximate number of personnel (11,941) who were paid FSA-2 during FY80 who would also have been eligible for CPP under the criteria of this alternative. As the minimum rate for CPP for this alternative exceeds the $30 per month payable for FSA-2, it is assumed that a member eligible for both payments would elect CPP.

The cost of Alternative 3 was estimated as follows:

| | | |
|---|---|---|
| 1. | Estimated cost of Alternative 2 | $134.5 million |
| 2. | Plus estimated cost of extended eligibility (officers) (20,000) x (12) x (100.00) | +24.0 million |
| 3. | Estimated CPP costs of Alternative 3 | 158.5 million |
| 4. | Less FSA-2 costs recovered (11,941) x (12) x ($30.00) | -4.3 million |
| 5. | Estimated total costs of Alternative 3 | $152.2 million |

[2]A further alternative, perhaps even more realistic, would be to pair officer grades with enlisted grades of associated responsibility. For example, instead of paying all officers the E-7/E-9 CPP rate, junior officers (0-1 to 0-3) would be paid the E-4 or E-5 rate, and so on.

Table 5

Estimated Number of DoD Personnel Eligible to Receive Both FSA-2 and CPP Under Criteria of Alternative 3, FY80

| Service | Officer | Enlisted |
|---|---|---|
| Air Force | 506 | 2709 |
| Army | 679 | 4094 |
| Navy | 386 | 1743 |
| Marine Corps | 381 | 1443 |
| Total | 1952 | 9989 |

Alternative 4

This alternative restructures the CPP system to provide payments, varying from 0 to 25 percent of base pay, dependent on location, to all qualified officer and enlisted members. The post-differential rate established by the Department of State was used to determine specific rates to be applied at each overseas location. Finally, like Alternative 3, this proposal limits both the officer rate to the maximum payable to enlisted personnel for the same area and the payment of CPP and FSA-2 to one or the other on a member-elected basis.

This alternative would have the advantage of deriving all federal government (State Department and military) overseas hardship pay in a similar fashion. However, in addition to being administratively complicated, this plan would force the military to be dependent on State Department determinations of hardship, which may not coincide with DoD intentions or expectations.

To estimate the cost of Alternative 4, differential rates established by the State Department were applied to the base pay of eligible members serving in the FDPAs during 1980. Table 6 displays an estimated distribution[3] of those personnel eligible for CPP within the five foreign duty differential pay rate groupings. The estimated number of eligible personnel, when applied to the pertinent rate of differential payment for each pay grade (Table 7), yields a total estimated cost of Alternative 4 (Table 8) of $39.8 million. This relatively low cost reflects the large number of personnel who are serving in FDPAs where overseas post differential rates are not authorized. There are 260 FDPAs or over 75 percent of the current CPP locations that would not be eligible for CPP under this plan.

Historically, the rates of foreign duty pay have been linked to sea pay. Recent legislation has established provisions for career sea pay in which increased payment is tied to cumulative sea duty. These rates of payment far exceed the present rates of CPP. Alternative 5 attempts to overcome that difference.

[3]Estimated by mapping personnel by FDPA to State Department posts and their corresponding differential rate group.

Table 6

Distribution of CPP Recipients Within State Department Post Differential Rate (%) Groups (Alternative 4 Criteria)

| Pay Grade | Number of CPP Recipients FY80 | Estimated Number of CPP Recipients in Differential Rate Groups | | | | |
|---|---|---|---|---|---|---|
| | | 0% | 10% | 15% | 20% | 25% |
| All Officers | 20,000 | 15,704 | 4,042 | 65 | 85 | 104 |
| E-9 | 956 | 753 | 190 | 3 | 5 | 5 |
| E-8 | 2,801 | 2,210 | 557 | 8 | 12 | 14 |
| E-7 | 10,675 | 8,412 | 2,124 | 32 | 42 | 65 |
| E-6 | 18,548 | 14,616 | 3,691 | 56 | 74 | 111 |
| E-5 | 31,996 | 25,213 | 6,367 | 96 | 128 | 192 |
| E-4 | 39,778 | 31,345 | 7,916 | 129 | 171 | 217 |
| E-3 | 27,536 | 18,724 | 8,398 | 103 | 137 | 174 |
| E-2<br>E-1 | 22,018 | 14,972 | 6,715 | 83 | 109 | 139 |
| Total | 174,308 | 131,949 | 40,000 | 575 | 763 | 1,021 |

Table 7

FY80 CPP Rates by Differential Rate Groups

| Pay Grade | Base Pay (Monthly) FY80 ($) | Monthly CPP Rates for Differential Rate Groups | | | | |
|---|---|---|---|---|---|---|
| | | 0% | 10% | 15% | 20% | 25% |
| All Officers | N/A | None | 109.00 | 164.00 | 218.00 | 273.00 |
| E-9 | N/A | None | 109.00 | 164.00 | 218.00 | 273.00 |
| E-8 | N/A | None | 109.00 | 164.00 | 218.00 | 273.00 |
| E-7 | 1,091.40 | None | 109.00 | 164.00 | 218.00 | 273.00 |
| E-6 | 960.00 | None | 96.00 | 144.00 | 192.00 | 240.00 |
| E-5 | 814.80 | None | 81.00 | 122.00 | 162.00 | 204.00 |
| E-4 | 676.80 | None | 68.00 | 102.00 | 136.00 | 169.00 |
| E-3 | 570.30 | None | 57.00 | 86.00 | 114.00 | 142.00 |
| E-2 | N/A | None | 45.00 | 68.00 | 90.00 | 112.00 |
| E-1 | 448.80 | None | 45.00 | 68.00 | 90.00 | 112.00 |

Table 8

Estimated FY80 Cost of Alternative 4

| Pay Grade | Total Estimated Annual Cost ($) | Estimated Annual CPP Cost by Differential Group ($) | | | | |
|---|---|---|---|---|---|---|
| | | 0% | 10% | 15% | 20% | 25% |
| All Officers | 5,977,920 | None | 5,286,936 | 127,920 | 222,360 | 340,704 |
| E-9 | 283,884 | None | 248,520 | 5,904 | 13,080 | 16,380 |
| E-8 | 821,556 | None | 728,556 | 15,744 | 31,392 | 45,864 |
| E-7 | 3,163,980 | None | 2,778,192 | 62,976 | 109,872 | 212,940 |
| E-6 | 4,852,416 | None | 4,252,032 | 110,208 | 170,496 | 319,680 |
| E-5 | 7,048,116 | None | 6,188,724 | 140,544 | 248,832 | 470,016 |
| E-4 | 7,336,500 | None | 6,459,456 | 157,896 | 279,072 | 440,076 |
| E-3 | 6,334,440 | None | 5,744,232 | 106,296 | 187,416 | 296,496 |
| E-2<br>E-1 | 3,998,364 | None | 3,626,100 | 67,728 | 117,720 | 186,816 |
| Total | 39,817,176 | None | 35,312,748 | 795,216 | 1,380,240 | 2,328,972 |

Alternative 5

In providing a plan similar to Career Sea Pay, this proposal pays enlisted members in pay grades E-4 and above who have served more than 1 year in SECDEF-designated FDPAs. Rates would vary with cumulative years of such duty and be the same for all eligible enlisted pay grades. Table 9 reflects a set of suggested rates, ranging from $25 to $100, for cumulative service ranging from over 1 to over 4 years.

While restoring consistency with sea pay, this alternative would, like CSP, present some initial administrative problems in determining eligibility. Further, the plan provides no mechanism for change in the rates (i.e., rates are not tied to CPI or base pay). Special Congressional action would be required for any modification.

Of all the CPP alternatives considered, an accurate cost estimate for Alternative 5 is the most difficult to obtain. The probability of a member's assignment to a FDPA depends on many variables that differ among the services and on the occupational specialty of the individual service member. For the purposes of this effort, an estimated average cumulative period of duty in FDPAs for each pay grade has been derived from a combination of the probability of being assigned overseas during a career and a subjective evaluation of a military member's career progression and assignment pattern. Table 10 reflects the estimated average years of cumulative service for each pay grade eligible for CPP. Applying the average rate of CPP established for each pay grade to the number eligible during FY80 yields a total cost of approximately $47 million.

Table 9

Career CPP: Proposed Rates of Payment

| Cumulative Years in FDPA | Monthly Rate ($) |
|---|---|
| Over 1 | 25.00 |
| Over 2 | 50.00 |
| Over 3 | 75.00 |
| Over 4 | 100.00 |

Table 10

Estimated CPP Cost of Alternative 5

| Pay Grade | Total Eligible (FY80) | Average YOS | Estimated Average Cumulative Years CPP Duty | Estimated Average Monthly CPP ($) | Estimated Annual Cost, FY80 |
|---|---|---|---|---|---|
| 9 | 956 | 25.0 | 5.40 | 100 | 1,147,200 |
| 8 | 2,801 | 19.0 | 4.70 | 100 | 361,200 |
| 7 | 10,675 | 16.5 | 3.80 | 75 | 9,607,500 |
| 6 | 18,548 | 12.0 | 2.40 | 50 | 1,288,000 |
| 5 | 31,996 | 7.5 | 1.75 | 25 | 9,598,800 |
| 4 | 39,778 | 5.0 | 1.60 | 25 | 11,988,900 |
| Total | | | | | $46,991,600 |

One of the major philosophical objections to the concept of CPP, and its predecessor, foreign duty pay, has been that a nominal amount of such duty is a normal part of military service and, as a general military liability, such service deserves no special recognition. The final alternative considers this objection and offer a remedy to it.

## Relative Cost of Alternatives

Table 11 summarizes the attributes and relative FY80 estimated costs of the alternatives.

Table 11

Alternatives to Present CPP System

| Alternative | Intent | Critieria | Eligibility | Rate of Payment | Estimated Cost ($ Millions) |
|---|---|---|---|---|---|
| 1 | Restore level of payment/recognition to meaningful amount. | Service in designated FDPA. | All enlisted | Based on FY49 payment adjusted by CPI. | 85.9 |
| 2 | Restore level of payment/recognition to meaningful amount. | Service in designated FDPA. | All enlisted | 10 percent base pay. | 134.5 |
| 3 | Restore level of payment/recognition to meaningful amount. | Service in designated FDPA. | All military | • 10 percent base pay.<br>• Limited to maximum payable to enlisted.<br>• Election of CPP or FSA-2. | 156.4 |
| 4 | Recognize variable rigors of service w/variable rates. | Service overseas in applicable State Department differential area. | All military | Variable rate:<br>• 0-25 percent base pay dependent on area.<br>• Limited to maximum payable to enlisted for same area.<br>• Election of CPP or FSA-2. | 39.8 |
| 5 | Recognize cumulative overseas hardship service greater than minimum general military liability. | Cumulative service in designated FDPA in excess of 1 year. | E-4 and above | Rates vary from $25-$100 per month for cumulative service from 1 to over 4 year. | 46.9 |
| 6 | Eliminate CPP. Provide no special recognition of service that is part of general military liability. | N/A | N/A | N/A | 0.0 |

## CONCLUSIONS

CPP has become a "token" recognition of overseas hardship duty. Qualification standards for the pay either overlap or are inconsistent with other forms of overseas compensation.

Several alternatives to the current system exist. They provide greater recognition to personnel serving overseas in undesirable environments and are more consistent with other forms of overseas compensation than CPP. All of the alternatives would, however, cost 50 percent or more than the current CPP outlays.

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